

CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 336

May 6, 1969

TAXES PAID OTHER COUNTRIES: JAPANESE TAX ON RENTAL OR ROYALTY INCOME

Syllabus:

Japanese tax withheld on amounts due a California resident from royalties, dividends, or rentals from the showing of motion pictures, is not deductible in computing California income tax. Legal Ruling 191 is withdrawn.

The Appeal of Don Baxter, Inc., decided October 21, 1963, concluded that taxes are not deductible under Section 24345, unless they are imposed on the gross amount of anything used or sold in the country which imposed the tax. Similarly, the taxes were held not deductible under Section 17204 in the Appeal of R. M. and Kathryn L. Blankenbeckler, decided January 6, 1969.

The twenty percent withholding tax imposed by Japan upon receipts paid to a nonresident from domestic-source income, such as from royalties, dividends, rentals from the showing of motion pictures, etc., is not imposed upon gross receipts from "anything used or sold" in Japan. The tax therefore is not an allowable itemized deduction under either Section 24345 or Section 17204. Accordingly, Legal Ruling 191, is reversed.